MANGEL STORES CORPORATION

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ANNUAL REPORT 1964

MANGEL STORES CORPORATION

HIGHLIGHTS

INCOME DATA	1964	1963
Net Sales, Including Income from Leased Departments	$90,240,174	$93,907,125
Net Income before Federal Income Taxes	1,681,661	1,440,737
Federal Income Taxes – Net	680,000	554,000
Net Income	1,001,661	886,737
Dividends Paid	871,590	870,992
Number of Stores	164	167
BALANCE SHEET DATA		
Current Assets	$22,969,008	$21,470,544
Current Liabilities	6,907,151	5,068,011
Net Working Capital	16,061,857	16,402,533
Current Ratio	3.3	4.2
Accounts Receivable – Net	$ 4,735,326	$ 4,212,776
Merchandise Inventories	15,858,721	13,101,138
Fixed Assets – Net	7,805,272	7,993,025
Long-Term Debt	9,793,404	10,397,623
Stockholders' Equity	16,577,101	16,445,736
PER SHARE DATA		
Net Income	$ 1.37	$ 1.22
Dividends	1.20	1.20
Book Value	22.82	22.64

TO OUR SHAREHOLDERS:

I am pleased to present herewith the financial report of your Company for the fiscal year ended February 1, 1964.

EARNINGS

Net earnings after all charges including Federal income taxes increased to $1,001,661 this year from $886,737 last year, an improvement of $114,924 or 12.9%. Share earnings were $1.37 this year and $1.22 last year. Adding depreciation and amortization of $1,238,751 to net income of $1,001,661, the cash flow was $2,240,412 or $3.08 per share which compares with $2.79 per share last year. In spite of the decrease in sales, the increase in earnings resulted from improved margins, reduced merchandise shortages, and economies effected in store and home office operations. We continue our conservative policy of charging to income within the year, pre-opening expenses of new stores.

SALES

Net sales including income from leased departments totaled $90,240,174 as compared with $93,907,125 in the previous year, a decrease of 3.9%.

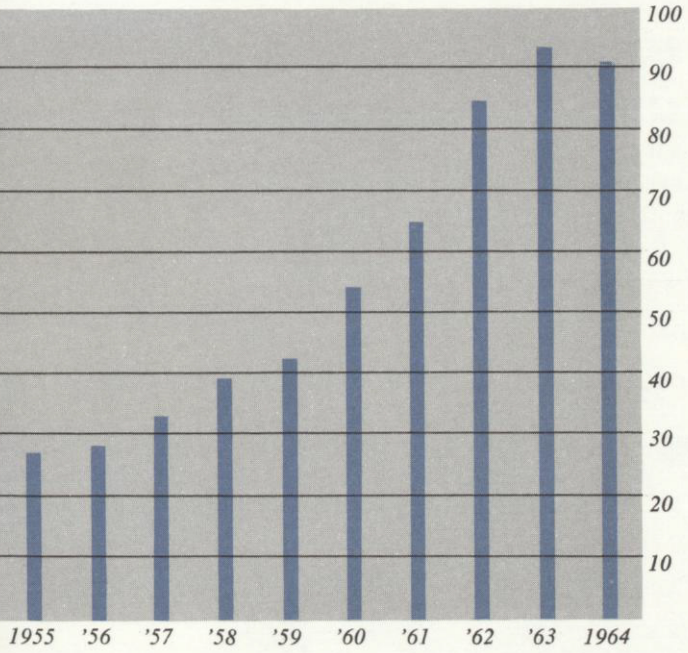
During this fiscal year, fourteen new stores and leased departments were opened and seventeen locations were closed, either due to unprofitability or lease expiration, leaving 164 locations in operation at the end of the year compared with 167 last year. Seven new Shoppers Fair stores were opened in Quincy, Illinois, Columbus and Marion, Indiana, Paducah, Kentucky and Adrian, Benton Harbor and Detroit, Michigan. The Detroit store is the fifth in that city.

We plan to be conservative in further expansion depending upon business conditions, competition and the availability of favorable leases.

DIVIDENDS

On March 16, 1964 we paid our seventy-fifth consecutive quarterly dividend on the Common Stock, making nineteen uninterrupted years of cash dividends paid by the Company. The record total of $871,590, or $1.20 per share was paid this year. Future dividends, of course, are dependent upon continued profitable operations.

SALES *in millions of dollars*



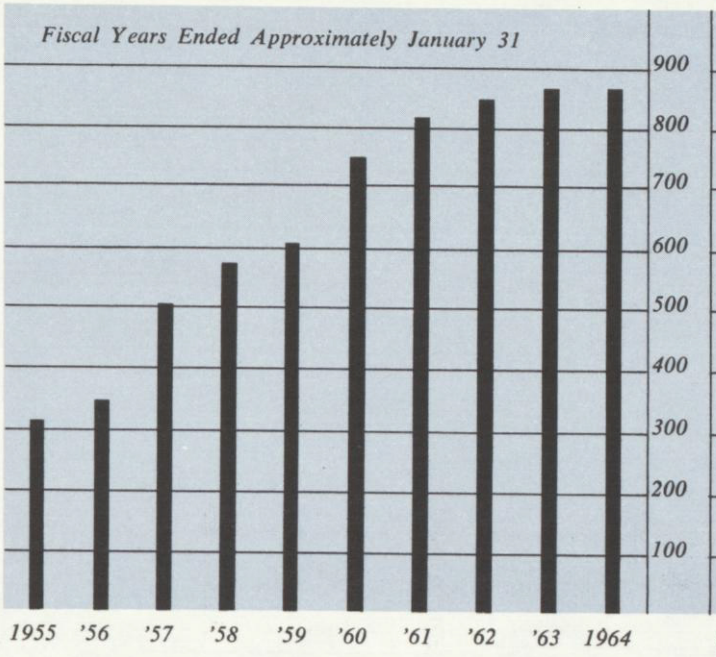
FINANCIAL CONDITION

Our financial condition remains very strong as shown by the Consolidated Balance Sheets on pages 6 and 7. This is true in spite of the reduction in working capital of $340,676 which was caused, principally, by the transfer to current liabilities of the current portion of $500,000 of the note payable to the Prudential Insurance Company of America. The changes in working capital are accounted for as follows:

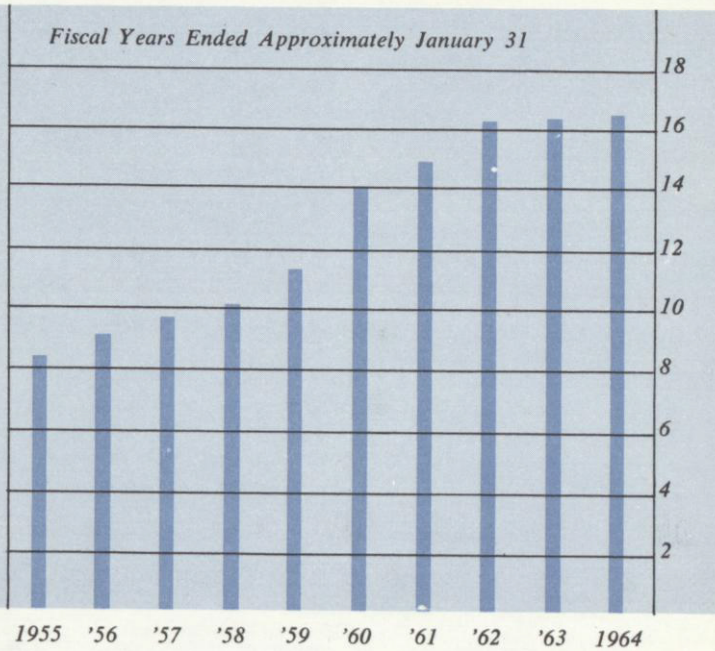
Additions to Working Capital:

Net income for the year	$1,001,661
Depreciation and amortization not requiring cash outlay	1,238,751
Total	2,240,412

DIVIDENDS *in thousands of dollars*



SHAREHOLDERS' EQUITY *in millions of dollars*



Deductions from Working Capital:	
Decrease in long-term debt	604,219
Cash dividends	871,590
Purchases of fixed assets – net	927,937
Other – net	177,342
Total	2,581,088
Decrease in Working Capital	$ 340,676

GENERAL

Your Board of Directors and Officers gratefully acknowledge the loyal support we have received from our employees, shareholders and suppliers in continuing the success of our business.

May 5, 1964 Chairman of the Board

TEN YEAR SUMMARY OF PROGRESS

FISCAL YEARS ENDED (APPROXIMATELY) JANUARY 31

INCOME DATA	1964	1963	1962
Net Sales, Including Income from Leased Departments*	$90,240,174	$93,907,125	$84,664,098
Net Income before Federal Income Taxes	1,681,661	1,440,737	2,246,493
Federal Income Taxes – Net	680,000	554,000	770,000
Special Item – Credit (Charge)	....	....	127,709
Net Income and Special Item	1,001,661	886,737	1,604,202
Dividends Paid	871,590	870,992	850,830
Number of Stores	164	167	162
BALANCE SHEET DATA			
Current Assets	$22,969,008	$21,470,544	$19,102,048
Current Liabilities	6,907,151	5,068,011	6,123,230
Net Working Capital	16,061,857	16,402,533	12,978,818
Current Ratio	3.3	4.2	3.1
Accounts Receivable – Net	$ 4,735,326	$ 4,212,776	$ 2,793,528
Merchandise Inventories	15,858,721	13,101,138	11,384,452
Fixed Assets – Net	7,805,272	7,993,025	6,946,078
Long-Term Debt	9,793,404	10,397,623	5,631,917
Stockholders' Equity	16,577,101	16,445,736	16,389,968
PER SHARE DATA (ALL YEARS ADJUSTED FOR 100% STOCK DISTRIBUTION MADE ON 5/28/57)			
Net Income**	$ 1.37	$ 1.22	$ 2.04
Special Item – Credit (Charge)**	....	....	.18
Net Income and Special Item**	1.37	1.22	2.22
Dividends	1.20	1.20	1.20
Book Value	22.82	22.64	22.63

*Except for 1955, which includes sales of leased departments.

**Based on average number of shares outstanding.

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CORPORATION AND CONSOLIDATED SUBSIDIARIES

1961	1960	1959	1958	1957	1956	1955
$65,096,448	$54,334,304	$42,654,510	$39,529,035	$33,177,700	$28,915,939	$27,564,670
2,185,379	2,553,353	1,797,366	1,719,033	2,000,260	1,642,986	1,358,214
781,000	960,000	655,000	670,000	725,000	563,000	468,000
....	....	....	(160,249)	(148,702)	....	....
1,404,379	1,593,353	1,142,366	888,784	1,126,558	1,079,986	890,214
822,906	754,836	610,485	581,638	505,574	353,902	316,108
132	126	125	123	125	118	117
$14,516,470	$13,159,014	$11,906,041	$ 8,929,702	$ 8,887,515	$ 8,905,796	$ 7,805,653
3,692,112	3,386,345	2,012,557	2,961,206	1,943,846	2,321,724	1,374,249
10,824,358	9,772,669	9,893,484	5,968,496	6,943,669	6,584,072	6,431,404
3.9	3.9	5.9	3.0	4.6	3.8	5.7
$ 2,964,310	$ 3,277,502	$ 2,776,514	$ 2,796,598	$ 2,976,121	$ 2,834,455	$ 2,312,078
7,393,154	5,799,507	5,169,587	3,969,138	3,628,380	3,338,297	3,246,598
5,905,618	5,139,956	5,092,203	5,013,737	4,133,141	3,645,885	3,259,469
3,615,500	2,819,000	5,169,000	3,416,000	3,883,000	3,350,000	2,617,000
14,930,984	14,020,446	11,357,859	10,078,219	9,763,895	9,142,911	8,416,827
$ 2.04	$ 2.53	$ 2.24	$ 2.07	$ 2.52	$ 2.13	$ 1.76
....	....	....	(.32)	(.30)	....	....
2.04	2.53	2.24	1.75	2.22	2.13	1.76
1.20	1.20	1.20	1.15	1.00	.70	.625
21.54	20.86	20.47	19.92	19.31	18.08	16.65

CONSOLIDATED BALANCE SHEETS

As at February 1, 1964 – February 2, 1963

ASSETS

	1964	1963
CURRENT ASSETS:		
Cash	$ 2,011,049	$ 1,756,743
Short-term investments – at cost, plus amortized discount		1,998,778
Accounts receivable – trade, less reserves for doubtful accounts of $421,369 and $300,889, respectively, and unearned service charges of $98,808 and $146,016, respectively	4,735,326	4,212,776
Miscellaneous receivables	363,912	401,109
Merchandise inventory – at the lower of cost or market, based upon the retail method of inventory valuation (including merchandise in transit – at cost – $305,176 and $476,782, respectively)	15,858,721	13,101,138
TOTAL CURRENT ASSETS	22,969,008	21,470,544
INVESTMENTS AND OTHER ASSETS:		
Investments in unconsolidated real estate subsidiaries – at underlying book equity – Note A	1,120,734	1,068,387
Miscellaneous other assets (including estimated refunds of Federal income taxes of $368,301 and $281,759, respectively)	573,995	494,106
	1,694,729	1,562,493
FIXED ASSETS – at cost:		
Real estate – less reserve for depreciation of $23,745 and $19,428, respectively	112,089	116,406
Furniture, fixtures, equipment and leasehold improvements, less reserves for depreciation and amortization aggregating $4,949,899 and $4,174,662, respectively, partly pledged – contra – Note B	7,693,183	7,876,619
	7,805,272	7,993,025
DEFERRED CHARGES:		
Insurance	262,191	330,642
Taxes, expenses, etc.	616,676	600,896
	878,867	931,538
GOODWILL	1	1
	$33,347,877	$31,957,601

The accompanying notes are an

MANGEL

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CORPORATION AND CONSOLIDATED SUBSIDIARIES

LIABILITIES

	1964	1963
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 692,141	$ 182,525
Accounts payable – merchandise, less discounts	3,556,430	2,208,558
Accounts payable – expenses, taxes, etc. (including $120,918 and $56,760, respectively, due to unconsolidated real estate subsidiary)	1,715,303	1,841,716
Customers' deposits on layaways and credits	106,024	113,198
Reserve for Federal income taxes	837,253	722,014
TOTAL CURRENT LIABILITIES	6,907,151	5,068,011
LONG-TERM DEBT, less current portion:		
5.80% Note payable – insurance company – Note C	9,500,000	10,000,000
Notes payable – bank	60,555	83,750
Payable (including finance charges) for purchases of equipment, collateralized by the related equipment	232,849	313,873
	9,793,404	10,397,623
GUARANTEES OF MORTGAGES PAYABLE OF UNCONSOLIDATED REAL ESTATE SUBSIDIARIES AND LONG-TERM LEASES – Note D		
TOTAL LIABILITIES	16,700,555	15,465,634
DEFERRED INVESTMENT TAX CREDIT	70,221	46,231
STOCKHOLDERS' EQUITY – Notes C and E:		
Common Stock – par value $1 per share:		
Shares: 1964 / 1963		
Authorized 1,000,000 / 1,000,000		
Issued 742,521 / 742,521	742,521	742,521
Less: Treasury stock 16,246 / 16,286	16,246	16,286
Outstanding 726,275 / 726,235	726,275	726,235
Capital Surplus	3,897,943	3,896,689
Retained Earnings	11,952,883	11,822,812
	16,577,101	16,445,736
	$33,347,877	$31,957,601

integral part of this statement.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the year (52 weeks) ended
February 1, 1964 – February 2, 1963

	1964	1963
Net sales, including income from leased departments	$90,240,174	$93,907,125
Cost of sales, and selling, general and administrative expenses (exclusive of depreciation and amortization), less service charges on customers accounts	87,131,853	91,233,128
	3,108,321	2,673,997
Depreciation and amortization	1,115,690	1,014,546
	1,992,631	1,659,451
Net income of unconsolidated real estate subsidiaries (after deducting depreciation of $123,061 and $120,937, respectively) – Note A	67,347	52,510
	2,059,978	1,711,961
Other deductions – net	378,317	271,224
Net income before Federal income taxes	1,681,661	1,440,737
Federal income taxes – net	680,000	554,000
Net income	1,001,661	886,737
Retained Earnings at the beginning of the year	11,822,812	11,807,067
	12,824,473	12,693,804
Cash dividends – $1.20 per share in both years	871,590	870,992
Retained Earnings at the end of the year – Notes C and E	$11,952,883	$11,822,812

The accompanying notes are an integral part of this statement.

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CORPORATION AND CONSOLIDATED SUBSIDIARIES

UNCONSOLIDATED REAL ESTATE SUBSIDIARIES

SUMMARY OF ASSETS AND LIABILITIES – NOTE A

As at February 1, 1964 – February 2, 1963

	1964	1963
Land and buildings – at cost, subject to mortgages, less reserves for depreciation of $780,250 and $658,716, respectively – Note 1	$ 4,220,828	$ 4,330,952
Mortgages payable, including current portion of $113,361 and $124,742, respectively – Note 1	3,287,011	3,411,754
	933,817	919,198
Other assets, including cash of $6,741 and $10,882, respectively, and due from Mangel Stores Corporation of $120,918 and $56,760, respectively	311,971	259,374
	1,245,788	1,178,572
Accounts payable – expenses, taxes, etc. and reserve for Federal income taxes	125,054	110,185
Excess of assets over liabilities	$ 1,120,734	$ 1,068,387
Represented by underlying book equity:		
Capital Stock – Note 2	$ 659,432	$ 659,432
Capital Surplus	16,184	16,184
Retained Earnings (after deduction of cash dividends of $15,000 and $60,000, respectively)	445,118	392,771
	$ 1,120,734	$ 1,068,387

Note 1 – The mortgages payable bear interest at rates from 4% to 6%, and are payable in installments over a period of years terminating in 1982. The mortgages are collateralized by land and buildings of the unconsolidated real estate subsidiaries and by intercompany and other leases. Mangel Stores Corporation also guarantees certain mortgages.

Note 2 – Represents capital stocks of three companies having an aggregate of 450 authorized shares of no par value of which 300 shares are issued and outstanding.

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at February 1, 1964

The financial statements as at and for the year (52 weeks) ended February 2, 1963, are included for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and the notes pertaining to those financial statements.

NOTE A – Principles of Consolidation:

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of the real estate subsidiaries. A summary of assets and liabilities of real estate subsidiaries is set forth on page 9.

NOTE B – Furniture, Fixtures, Equipment and Leasehold Improvements:

Based on examinations currently being made by the Internal Revenue Service of prior years' income tax returns, the Company extended the lives used for computation of depreciation and amortization of certain furniture, fixtures, equipment and leasehold improvements; such change did not have a material effect on the net income for the year ended February 1, 1964.

NOTE C – 5.80% Note Payable – Insurance Company:

The 5.80% note is payable $500,000 on January 15, 1965 and 1966, and $750,000 annually thereafter through January 15, 1978. The note agreement requires, among other things, that the Company maintain consolidated working capital of not less than $14,000,000 and restricts (1) the payment of dividends (other than stock dividends) and (2) purchase of the Company's capital stock and making of certain investments. As at February 1, 1964, approximately $760,000 of consolidated Retained Earnings was free of these restrictions.

NOTE D – Guarantees of Mortgages Payable of Unconsolidated Real Estate Subsidiaries and Long-Term Leases:

Certain mortgages payable by unconsolidated real estate subsidiaries are guaranteed by Mangel Stores Corporation. See page 9.

As at February 1, 1964, the minimum annual rentals on property covered by 124 leases expiring after January 31, 1967, exclusive of intercompany rentals, amounted to approximately $3,664,000. The minimum annual rentals on property covered by 4 leases expiring after January 31, 1967, with unconsolidated subsidiaries amounted to approximately $216,000. Certain lease agreements provide for additional rentals based upon sales or for payment of real estate taxes, insurance, etc.

NOTE E – Stockholders' Equity:

During the fiscal years ended in 1960 and 1961, the Board of Directors granted to certain officers and employees restricted stock options for the purchase of the Company's Common Stock; as at February 2, 1963, options for 4,260 shares at prices ranging from $21.20 to $28.50 per share were outstanding. During the year ended February 1, 1964, options for 140 shares were exercised, and options for 100 shares were terminated. As at February 1, 1964, options for 4,020 shares at prices ranging from $21.20 to $28.50 per share were outstanding. Options are exercisable within five years from dates of grant. The Company intends to issue only Common Stock held in treasury in satisfaction of the aforementioned options. The issuance of Common Stock (treasury stock) upon exercise of options and the acquisition of 100 shares acquired as treasury stock, resulted in the net reduction of $40 from treasury stock account and in the net addition of $1,254 to Capital Surplus account.

Consolidated Retained Earnings include undistributed earnings of subsidiaries which may be subject to Federal and state income taxes if and when received by the respective parent companies in the form of dividends.

GENERAL:

The accompanying consolidated financial statements are subject to final determination of Federal, state and local taxes.

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CORPORATION AND CONSOLIDATED SUBSIDIARIES

ACCOUNTANTS' REPORT

To the Board of Directors
Mangel Stores Corporation
New York, N. Y.

We have examined the consolidated balance sheet of Mangel Stores Corporation and consolidated subsidiaries as at February 1, 1964, and the related consolidated statement of income and retained earnings for the year (52 weeks) then ended, and the summary of assets and liabilities of unconsolidated real estate subsidiaries as at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying aforementioned statements and summary, together with the notes to consolidated financial statements, present fairly the consolidated financial position of Mangel Stores Corporation and consolidated subsidiaries at February 1, 1964, and the consolidated results of their operations for the year (52 weeks) then ended, and the assets and liabilities of the unconsolidated real estate subsidiaries at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 7, 1964

MANGEL STORES CORPORATION

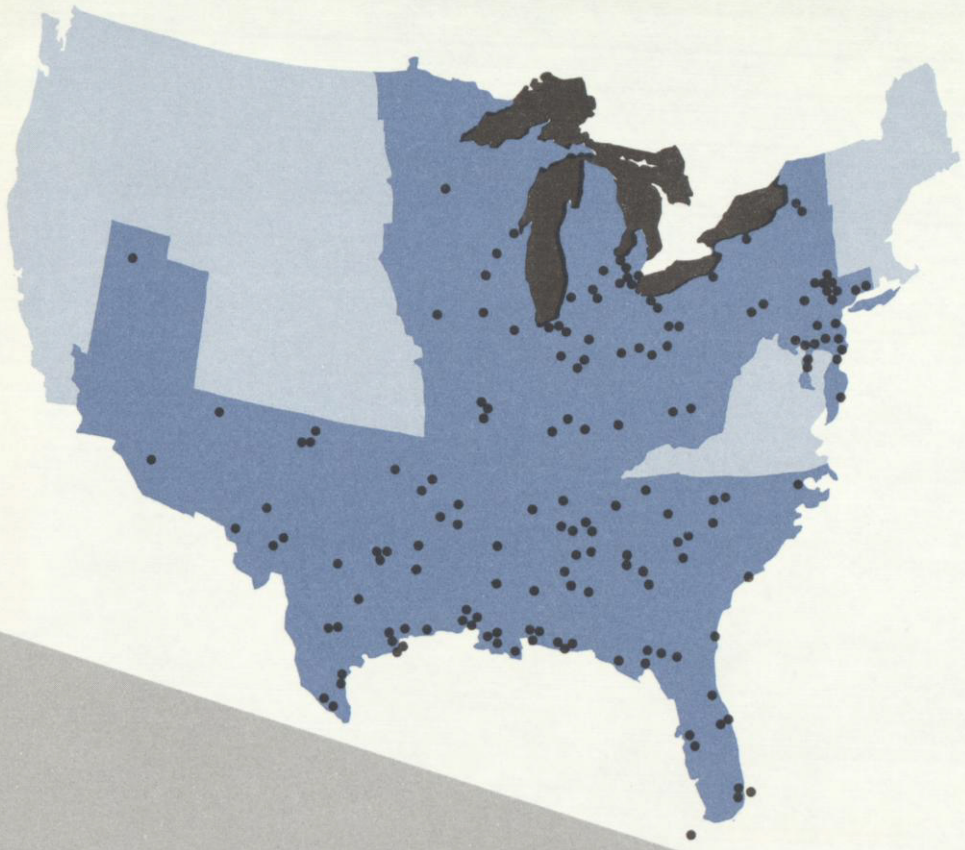
DIRECTORS

HERBERT J. DEITZ
ISRAEL A. DIAMOND
PHILLIP F. FRANKEL
JOSEPH GUZY
SAUL C. GUZY
SANFORD S. JAFFE
MAURICE N. JAFFE
GEORGE M. JAFFIN
AL KLEIN
SOL MANGEL
MAX WEINREICH

OFFICERS

SOL MANGEL *Chairman of the Board*
JOSEPH GUZY *President*
PHILLIP F. FRANKEL *Executive Vice-President*
ISRAEL A. DIAMOND *Vice-President and Treasurer*
SAUL C. GUZY *Vice-President, Director of Sales Promotion, and Assistant Secretary*
AL KLEIN *Vice-President, Assistant Secretary and Controller*
SANFORD S. JAFFE *Vice-President, Director of Merchandise*
WALTER MAYER *Vice-President, General Merchandiser*
SOPHIA KAUFMAN *Vice-President, Merchandiser of Lingerie*
MAURICE N. JAFFE *Vice-President, Merchandiser of Domestics*
LOUIS JOSEFSBERG *Vice-President, Supervisor of Mangel Stores*
B. ROBERT ROSTHAL *Vice-President, Supervisor of Shoppers Fair Stores*
MAURICE MANTEL *Vice-President, Director of Construction and Maintenance*
HAROLD M. GUZY *Vice-President*
DAVID M. DIAMOND *Vice-President*
EMANUEL MANGEL *Assistant Treasurer*
MAX WEINREICH *Secretary*

COUNSEL	Cole, Friedman & Deitz, New York, N. Y.
AUDITORS	S. D. Leidesdorf & Co., New York, N. Y.
TRANSFER AGENT	Morgan Guaranty Trust Company of New York 140 Broadway, New York 15, N. Y.
REGISTRAR	Manufacturers Hanover Trust Company 55 Broad Street, New York 15, N. Y.



164 STORE AND LEASED DEPARTMENT LOCATIONS

Alabama
Anniston
Birmingham
Decatur
Florence
Huntsville (2)
Mobile (2)
Montgomery
Prichard
Selma
Tuscaloosa

Arizona
Phoenix
Tucson

Arkansas
Fayetteville
Fort Smith
Hot Springs
Little Rock
Pine Bluff

Connecticut
Bridgeport
South Norwalk

Delaware
Wilmington

Florida
Jacksonville
Key West
Miami (2)
Orlando (2)
Panama City
Pensacola (3)
Tallahassee
Tampa (2)

Georgia
Atlanta
Augusta
Columbus
Macon
Savannah
Thomasville
Valdosta

Illinois
Danville
Quincy

Indiana
Columbus
Evansville
Fort Wayne
Gary
Indianapolis (2)
Lafayette
Marion
Michigan City
South Bend

Iowa
Clinton
Des Moines

Kentucky
Lexington
Paducah (2)
Shively

Louisiana
Baton Rouge (3)
Crowley
Lafayette
New Iberia
New Orleans
Opelousas

Maryland
Salisbury

Michigan
Adrian
Battle Creek
Benton Harbor
Detroit (5)
Flint
Jackson
Kalamazoo
Lansing
Saginaw

Minnesota
St. Paul

Mississippi
Greenville
Jackson
Meridian
Natchez

Missouri
St. Louis (3)
Springfield

New Jersey
Neptune
New Shrewsbury

New Mexico
Hobbs
Santa Fe

New York
Brooklyn
Kingston
Newburgh (2)
Peekskill (2)
Rochester
Syracuse (2)
Wappinger Falls

North Carolina
Asheville
Charlotte
Elizabeth City
Greensboro
Raleigh

Ohio
Akron
Canton (2)
Cleveland
Columbus
Dayton
Lancaster
Zanesville

Oklahoma
Tulsa

Pennsylvania
Altoona
Chester
Clifton Heights
Erie
Johnstown
Philadelphia
Scranton

South Carolina
Aiken
Charleston
Columbia
Greenville
Greenwood
Spartanburg

Tennessee
Chattanooga
Jackson
Johnson City
Memphis

Texas
Amarillo (2)
Baytown
Beaumont
Big Spring
Borger
Brownwood
Corpus Christi (2)
Dallas (2)
Galveston (2)
Harlingen
Houston (2)
McAllen
Midland
San Antonio (2)
Texarkana

Utah
Murray City
Salt Lake City

West Virginia
Charleston
Huntington

Wisconsin
Green Bay
Madison
Oshkosh

MANGEL STORES CORPORATION